ABCs of Credit Card Finance

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U.S. Credit Card Debt

➤ Revolving credit totaled $939.6 billion in March

➤ 6.5% of credit card debt was at least 30 days past due in the first quarter

➤ Average credit card debt per borrower = $5,710

➤ Americans pay $15 billion in penalty fees per year

How Students See It

- 31% of college students do not worry about debt

- 25%+ think it's reasonable to run up debt to splurge on a special celebration or to use a credit card to "raise cash"

- 92% agree that bad debt will have a significant impact on the ability to get a card in the future

The ABCs of Credit Card Finance

➢ Free copies for each student

➢ Trainer's guide for the teacher

➢ Optional PowerPoint presentation

➢ Content revised each year

➢ Can be presented in about an hour

The ABCs of Credit Card Finance

Essential Facts for Students

Carol A. Carolan, Ph.D.
2008
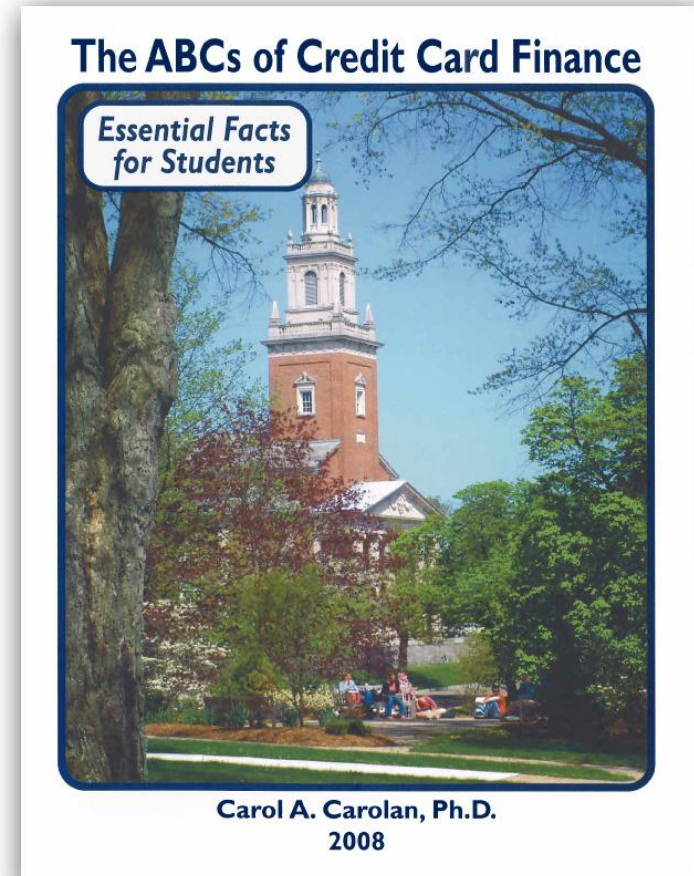
Teacher's PowerPoint

www.credit-edadministrator.com/materials/highschoolworkshop.php

Measuring Financial Literacy

Suppose you owe $1,000 on your credit card and the interest rate you are charged is 20% per year compounded annually. If you didn't pay anything off, at this interest rate, how many years would it take for the amount you owe to double?

- 2 years
- Under 5 years
- 5 to 10 years
- More than 10 years
- Do not know
- Prefer not to answer

Interest compounding	Percent
2 years	9.6
Less than 5 years (correct)	35.9
5 to 10 years	18.8
More than 10 years	13.1
Do not know	18.2
No answer	4.3

Measuring Financial Literacy

You owe $3,000 on your credit card. You pay a minimum payment of $30 each month. At an Annual Percentage Rate of 12% (or 1% per month), how many years would it take to eliminate your credit card debt if you made no additional new charges?

- Less than 5 years
- Between 5 and 10 years
- Between 10 and 15 years
- Never
- Do not know
- Prefer not to answer

Credit card payment	Percent
Less than 5 years	3.8
Between 5 & 10 years	12.4
Between 10 & 15 years	21.6
Never (correct)	35.4
Do not know	21.7
No answer	5.1

Measuring Financial Literacy

You purchase an appliance which costs $1,000. To pay for this appliance, you are given the following two options: a) Pay 12 monthly installments of $100 each; b) Borrow at a 20% annual interest rate and pay back $1,200 a year from now. Which is the more advantageous offer?

- Option (a)
- Option (b)
- They are the same
- Do not know
- Prefer not to answer

Appliance payment	Percent
Option a	40.6
Option b (correct)	6.9
They are the same	38.8
Do not know	9.2
No answer	4.5

Literacy

↓

Planning

↓

Wealth

Help Your Students Avoid Mistakes

- Nearly one-third of college students admit they were "not at all" or "not very well" prepared to manage money on their own in college

- Only 1 in 5 was "very well prepared"

- 75% admit to having made mistakes with their money

  - One of the three biggest mistakes was putting too many purchases on a credit card (16%)

ABCs Are Brought to You FREE By:

- Kentucky Department of Financial Institutions

- Office of the State Treasurer Todd Hollenbach

- The Kentucky Council on Economic Education

- The Kentucky Jump$tart Coalition

For more information or extra copies, call 800-223-2579 or e-mail kelly.may@ky.gov.

New Law to Bring Changes …

➢ The Credit Card Accountability, Responsibility and Disclosure Act of 2009 is meant to ban abusive credit practices and protect consumers

➢ A few things it does:

  ➢ Restricts raising rates on existing balances

  ➢ Changes over-limit fees

  ➢ Bans some late fees

  ➢ Restricts cards to those under 21 in some cases

  ➢ Prohibits universal default